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Article

Measuring and monitoring sustainability in listed European football clubs: a value-added reporting perspective.

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Abstract: Sports are framed within the context of the Olympic spirit and are therefore, within the vision and mission of the Olympic Committee, aimed at "building a better world". This is identified as a fundamental value and sustainability is therefore explicitly considered to be a "working principle" of this. In this research an analysis of the performance of professional European football teams publicly listed on stock markets, restating the income statements according to the Value-Added perspective is carried out. This takes into account the effective sustainable contribution in the distribution of added value with reference to the human, structural, debt, infrastructural, and risk capitals of these organisations. The Value-Added Statement is considered as a part of the broader CSR Reporting and can be traced back to the late 1970s. However, it is in widespread contemporary use and is regarded as being both a credible and a tested measure. In this paper the authors apply a slightly modified and simplified version of this tool to these publicly listed European football clubs as a proxy for wider professional sport. This research demonstrates that, although professional sports clubs are profit-oriented, the distribution of wealth generated by the added value is unbalanced. In most cases, at least in financial terms, shareholders are the most disadvantaged and athletes are the most rewarded.

Keywords: Sustainability; Sport Performance; Sport Management; Value Added Reporting; Value Added Income Statement; Listed Football Clubs; Communities development; Fair Income Distribution.

1. Introduction

The Olympic spirit [1-4] has always deeply impressed the collective imagination, both in ancient Greece and in the modern Olympiad, following the revival by Baron Pierre de Coubertin in 1896 [3-4, 27-29]. This "spirit" should be identified with an ideal of harmony and the pacification of supranational, recognizing the Greek principle of the "sacred truce" [5]. Within this research the authors intend to highlight the contribution that sports in general generate towards the local, national and global communities [6-7]. The values in the sport used by the Olympic Movement [5-27] and Paralympic Movement [29] should transcend the sporting sector and therefore cover both athletic and financial performance and strategy [29]. Though individuals and organisations have different objectives and targets, they should be guided by the same principles. In particular, this research considers the value-generating aspects of football clubs and uses an approach borrowed from the analysis of financial sustainability. Here we analyze the distribution of the added value determined by strictly sporting activity among all stakeholders. Sport by its nature, whether practiced professionally or as an amateur, has been shown to bring various benefits to communities in terms of tourism, the promotion of positive social values, health and urban development. The Olympic principles [8] (see Figure 1) inspire sporting practice at all levels and in all disciplines.

Figure 1. Olympism Vision, Values, Missions, and Working Principles. *Source: www.olympic.org*

This research demonstrates, through the application of a simple but effective methodology, that, although professional sports clubs are considered profit-oriented, the distribution of wealth generated by the added value are unbalanced. In most cases, at least in financial terms, shareholders are the most disadvantaged and athletes are the most rewarded.

2. Materials, Methods, and Literature

The literature on sustainability concerns the environmental, social, financial facets of the organisation. Sustainability reporting therefore is a transversal topic of absolute importance because it allows the results of Corporate Social Responsibility (CSR) actions to be highlighted. CSR is a central aspect of the outreach work that many sporting institutions undertake within their local communities. Within the Sustainability Report, Value-Added is understood as the difference between the revenues and costs of production limited to costs of purchasing goods (Cost Of Goods Sold/Cost of Sale) and services useful for the production process [9]. Value added in this context is therefore the difference between revenues and costs incurred for the purchase of production factors from other companies and thus represents the value that the internal production factors of the company, risk capital and labor, have "added" to the inputs purchased from outside.

The concept of added value adopted here differs from the accounting definition because it adopts the methodology proposed in 2001 by the Study Group for the Social Report (*GBS – Gruppo Bilancio Sociale* [10]) in Italy. With respect to the methodology proposed by the GBS, and in particular deepened by two main scholars, Prof. Mei [11-13] and Prof. Manni [9,14-21], some appropriate approximations and normalizations were considered due to the limited availability of financial data of the sample companies. This is applicable here because the sample is limited to European Football clubs listed on their national stock markets. According to this approach, the global gross added value distributed is almost attributable to the gross added value produced by the core business. Value added is considered for two main reasons. First of all, it allows to quantify how much wealth has been produced by the companies, how it was produced and how it is distributed to its stakeholders; it is therefore useful for understanding the economic impacts that the company produces. Secondly, it links closely to the Sustainability Report with the Financial Statements through the analysis presented in this research. Football clubs listed on stock exchanges are required by law to publish accounts and are therefore an appropriate sample with clear and comparable data. Accordingly the production and distribution of added value is a tool for re-considering the company's financial statements from the stakeholders' point of view (see Figure 2).

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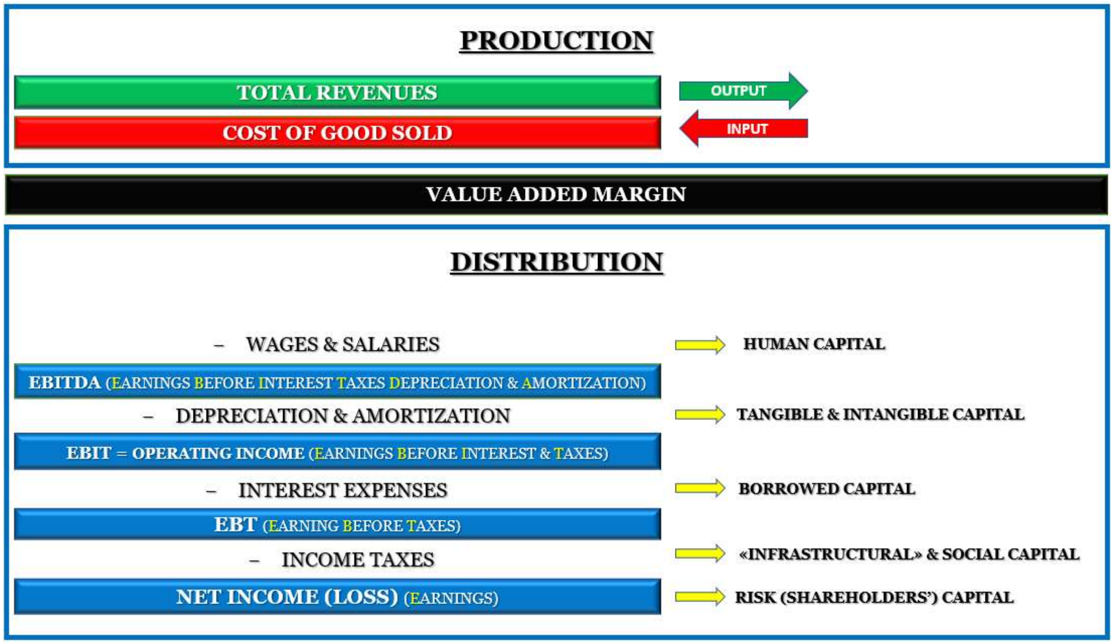

Figure 2. Value-Added "revised" income statement. A sustainable approach.

Given that the value added is mainly generated by commercial interests, broadcasting rights and matchday revenue categories and that the bulk of customers are expected to be the clubs' supporters [22], net of running costs, Figure 2, the distribution of the various re-stated items of the income statement is clearly linked with the capital contributed by the stakeholders, in the priority order of distribution (classified according to the source of capital to be rewarded by the distribution of the Value-Added). According to the generally recognized priority: a) wages and salaries are distributed to the athletes (human capital); b) depreciation and amortization are related to the incurred expenses due to the use of tangible and intangible assets; c) interest expenses provide the return of the investment made by the borrowers; d) income taxes are related to the expected contribution of any entity to the so-called "infrastructural and social capital" and thus links to statutory government provision of social benefits such as health, education, welfare and the rule of law; finally, the return for the shareholders, the net income (or net loss). It is pertinent here that shareholders are listed last.

In order to identify a relevant sample, the authors followed a number of steps: a) among the six football confederation, UEFA (Union of European Football Associations) was identified as this focuses the analysis on the European market; b) STOXX Europe Football index to identify the European football clubs Listed in the stock markets; c) among the clubs included in the STOXX index, some of them were excluded (the Polish RUCH CHORZOW - 4th division, and the Macedonian TETEKS AD TETOVO - 3rd division, Fenerbahce Futbol A.S., Galatasaray Sportif Sinai ve Ticari Yatirimlar AS, Trabzonspor Sportif Yatirim ve Futbol Isletmeciligi TAS, since they are classified instead of football clubs, rather as "marketing companies" by Bloomberg Business Intelligence) [23] (see Figure 3). This provided a clear cohort of European based football clubs which adhere to similar financial regulations, inside and outside of the sport. The following clubs therefore constitute the final sample: Borussia Dortmund, Brondby, Celtic, Futebol Clube do Porto, Juventus, Olympique Lyonnais, FC Copenhagen, Sporting Lisboa e Benfica, Sporting Lisboa, Aalborg, AIK, Ajax, AGF, Besiktas, Lazio, Roma, Silkeborg. The sample thus considered is not only statistically relevant, but also reliable as it is based on relevant data, as obtained from official primary sources that are available, as a legal requirement, in the public domain.

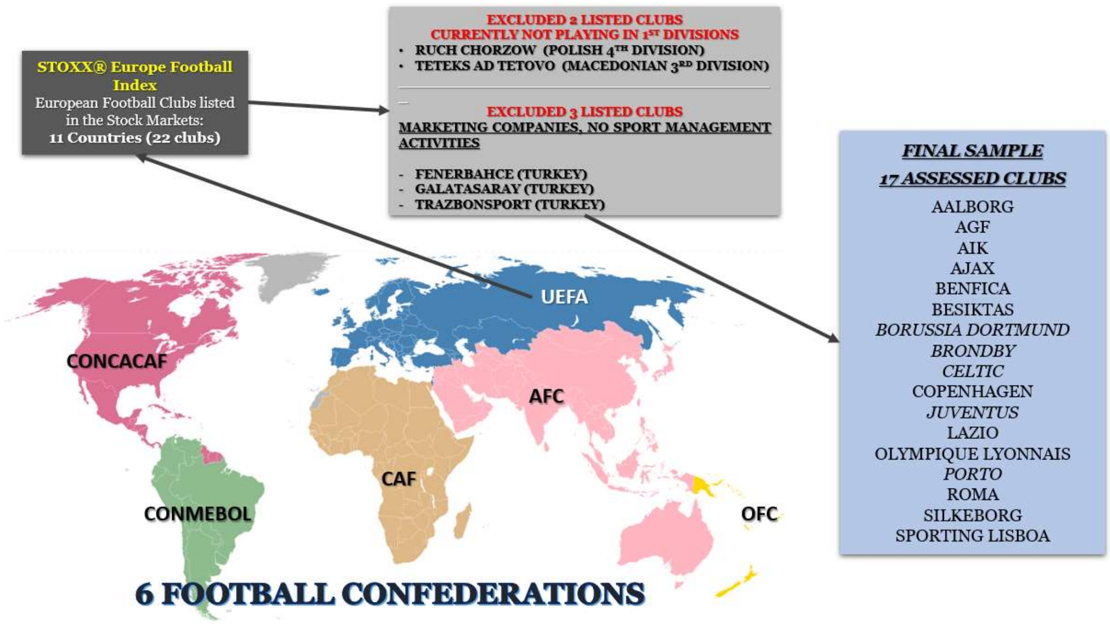

Figure 3. Methodology. Process of sample identification.

3. Results

Research was conducted using the outlined methodology (see Figure 4 and Figure 5) and data was collected and analysed from Bloomberg financial data and from the annual reports disclosed in the clubs official websites (investors' relation sections). From this, it was possible to appraise that the average composition of the distribution of wealth, understood as added value determined by the re-stated income statements, reports a great imbalance in favour of the athletes. The results determine that on average, among the 17 clubs analysed, that 85.43% of the value added was absorbed by the athletes salaries, 20.55% by the amortization of fixed assets, 14.31% by the payment of interest charges to creditors and 2.31% distributed to the government in the form of income taxes. Finally the shareholders reported an average net loss of 22.6%. This must therefore be considered as a contribution of wealth (subtracted from shareholders) rather than as a distribution. This loss was necessary to compensate the other stakeholders (such as athletes and debt owners) and were necessary because of pre-existing contractual obligations. Effectively, we see a wealth transfer from investors to other stakeholders, primarily the athletes themselves.

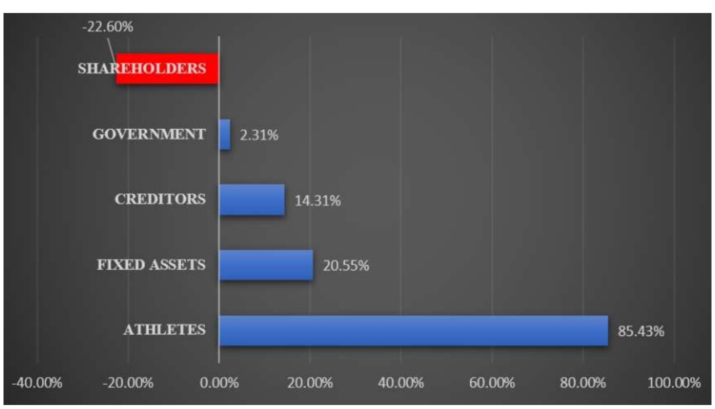

Figure 4. Average Value-Added distribution. Listed European Football Clubs.

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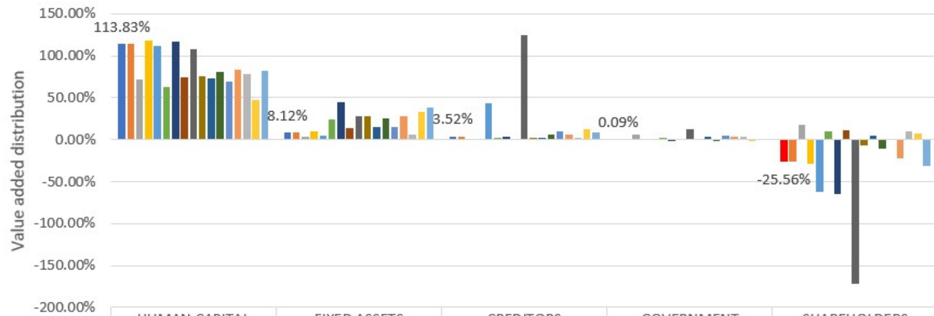

	HUMAN CAPITAL	FIXED ASSETS	CREDITORS	GOVERNMENT	SHAREHOLDERS
AALBORG BOLDSPILKLUB	113.83%	8.12%	3.52%	0.09%	-25.56%
AIK FOOTBALL	113.83%	8.12%	3.52%	0.09%	-25.56%
AFC AJAX	72.26%	3.50%	0.16%	6.27%	17.80%
AGF - (EX ARHUS ELITE)	118.66%	9.52%	0.76%	0.00%	-28.95%
BESIKTAS	111.98%	5.08%	43.14%	1.56%	-61.76%
BORUSSIA DORTMUND	62.26%	23.86%	2.35%	2.01%	9.52%
BRONDBY IF B	116.90%	44.70%	3.13%	-0.31%	-64.43%
CELTIC	73.84%	13.98%	0.77%	0.00%	11.41%
FUTEBOL CLUBE DO PORTO	107.51%	27.46%	124.53%	12.32%	-171.83%
F.C. JUVENTUS	76.11%	27.95%	1.96%	0.97%	-6.99%
S.S. LAZIO	72.85%	15.68%	2.00%	4.13%	5.35%
OLYMPIQUE LYONNAIS	80.72%	25.99%	5.81%	-1.92%	-10.60%
PARKEN - F.C. COPENHAGEN	69.58%	15.24%	9.58%	4.20%	1.40%
A.S. ROMA	83.70%	28.38%	6.43%	3.32%	-21.83%
SILKEBORG	77.96%	6.52%	2.85%	3.22%	9.46%
SPORT LISBOA E BENFICA	47.02%	33.83%	12.62%	-0.28%	6.82%
SPORTING	81.75%	38.98%	9.28%	1.31%	-31.32%

Figure 5. Value-Added distribution. Listed European Football Clubs.

Given that the salaries of elite professional footballers are notoriously very high, it is not surprising that much of the distribution of the added value generated by sporting activity goes to them. It should be noted that this is not the case for all professional sportspeople or even all professional footballers. In financial terms, however, it should be considered that the added value generated by sporting activity in this sample is not sufficient to reward all the stakeholders involved in it. On average, the shareholders are forced to take on this responsibility, with losses suffered from the capital they invested, of the part not covered by the added value of sporting activity in order to guarantee the remuneration of the other productive factors brought by the other stakeholders (athletes, fixed assets and creditors and government).

The importance of the investment of the shareholders in keep the clubs functioning as going financial concerns by supporting the losses suffered affirms the reasons for different types of interest that can fuel the interest in owning a football team. This reasons are often totally outside the potential financial benefits, and include status and profile [24], sporting fandom and, other spillovers in terms of related investments. With regard to this last aspect, particular reference is made to the construction / improvement of stadia and sports facilities for training, and retail.

From the perspective of the contribution in terms of social cohesion and social capital, it is then evident how, various tax concessions (subsidized tax regimes are expressly provided for sports activities) and high management costs, negatively affect the attribution, in monetary terms , of the value added to the government. The value added through tax contributions is on average less than 3%. It must also be factored in too that football players are, generally, taxed on their salaries at high levels by national governments. Zlatan Ibrahimovic upon moving to Paris Saint Germaine in France became subject to the countries 75% rate of income tax on high earners and famously claimed to be doing “more for France than President of the Republic, François Hollande”.

This direct contribution in terms of taxes is however balanced by multiple indirect outcomes of the sporting activity of the clubs, in terms of tourism (infrastructural development in the areas adjacent to the stadia, management of supporters' trips), of the use of activities related to football (marketing, merchandising, broadcasting, journalism and many others). It is therefore not surprising that almost all European football clubs are mainly owned by private investors [23], rather than institutional investors, as private individual investors are more likely to be interested in the visibility granted by the ownership status of clubs, and only secondarily in the financial performance of the clubs, as they can indirectly have other types of gain. Minority investors, on the other hand, can be identified mainly in the type of speculators, as the fluctuations in the share prices of listed football clubs are notoriously very high and often linked to on-field success [25].

The distribution of the value added to creditors (in terms of interest expense) and the recognition of amortization/depreciation for the incurred expenses of multi-annual production factors have a significant impact. Among the latter, the amortization of intangibles (brands, copyrights, goodwill) is particularly relevant since only some of the clubs analysed can amortize the costs relating to stadia in their income statements (Brondby, Celtic, Porto, Borussia Dortmund, Olypique Lyonnais, Benfica and Juventus), as in the case of the other clubs the stadia are owned by the municipalities, or directly/indirectly by the State, which then collects rents from the clubs for the use of the facilities. This indicates a wider net positive value added by the clubs and one which cements them as part of the economic eco-system in their local and national areas.

4. Discussion

This research frames the idea of value added in a broad context that is suitable to football clubs and the level at which they work across the economies and societies in which they are located. Football is big business and is, in financial terms, a clear net contributor to society. In many ways, this contribution is a wealth transfer from private investors in these listed clubs as these investors often take on the main burden of financial risk for the smallest return (or often a financial loss). This is knowledge that investors or speculators will have access to prior to making investments in publicly listed football clubs, and so does open a debate as to the motivation behind their investments. As purely financial investments, football clubs are a fairly poor (in terms of lack of dividend distribution) and a highly speculative option. The link between on-field success and financial return for investors also suggests that heavy initial investment in playing staff represents a gamble of sorts for investors.

This research therefore suggests that the main focus of investors in these clubs is likely to be in encouraging sporting success, rather than financial gain. That the bulk of value added is spent on the athletes themselves is indicative of investors looking to build on pitch success rather than shorter term financial returns. Here too there is an interesting discussion point around the financial reward that the athletes receive. Elite footballers are often portrayed as overpaid but they are, in essence, the means of production in the footballing economy and, in this context, the footballing economy is unusual in capitalist societies in that the means of production receive the bulk of financial reward as opposers to the rentier class of investors behind the scenes [25].

Finally, it must also be taken into account that the sample of this study, though robust, is only drawn from the upper end of European football clubs [26-31]. Were data made available for lower league football clubs or those from developing economies, it would be of interest to replicate this study to understand how generalizable these findings are. This is a suggested area of future study.

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